



EAST KENTUCKY POWER COOPERATIVE

**RECEIVED**

AUG 20 2004

PUBLIC SERVICE  
COMMISSION

August 20, 2004

HAND DELIVERED

Ms. Elizabeth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

Case 2004-00330

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission an original and ten (10) copies of the Application of East Kentucky Power Cooperative, Inc., Inter-County Energy Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, and Salt River Electric Cooperative Corporation for Authority to Implement a Fixed Bill Pilot Program.

Very truly yours,

Charles A. Lile  
Senior Corporate Counsel

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**RECEIVED**

AUG 20 2004

PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY )  
POWER COOPERATIVE, INC., INTER- )  
COUNTY ENERGY COOPERATIVE )  
CORPORATION, NOLIN RURAL ELECTRIC )  
COOPERATIVE CORPORATION, AND SALT ) CASE NO. 2004-00330  
RIVER ELECTRIC COOPERATIVE )  
CORPORATION, FOR AUTHORITY TO )  
IMPLEMENT A FIXED BILL PILOT )  
PROGRAM )

**APPLICATION**

1. Applicant, East Kentucky Power Cooperative, Inc., hereinafter referred to as "EKPC", Post Office Box 707, 4775 Lexington Road, Winchester, Kentucky 40392-0707, on its own behalf and on behalf of three of its member systems, Inter-County Energy Cooperative Corporation, Post Office Box 87, Danville, Kentucky 40423-0087; Nolin Rural Electric Cooperative Corporation, 411 Ring Road, Elizabethtown, Kentucky 42701-6767; and Salt River Electric Cooperative Corporation, Post Office Box 609, Bardstown, Kentucky 40004, hereinafter referred to as the "Member Systems," hereby files this Application for authorization to implement a fixed bill pilot program, as described herein.

2. This Notice is made pursuant to KRS §§278.030, 278.040, 278.180 and related statutes, and 807 KAR 5:011 Sections 6, 7 and related sections.

3. A copy of EKPC's restated Articles of Incorporation and all amendments thereto were filed with the Public Service Commission (the "Commission") in PSC Case No. 90-197, the Application of East Kentucky Power Cooperative, Inc. for a Certificate

of Public Convenience and Necessity to Construct Certain Steam Service Facilities in Mason County, Kentucky. Inter-County Energy represented to the Commission in Case 9486 that its Articles of Incorporation had been previously provided to the Commission. Nolin's Articles of Incorporation and amendments thereto were filed with the Commission in Case 93-324, which was the Application for Authorization to Obtain a Line of Credit from CFC. Salt River's Articles of Incorporation and amendments thereto were filed with the Commission in Case 92-560, Rate Adjustment (Section 10 (1) (a) 3),

4. Copies of Board Resolutions of EKPC and the Member Systems approving the establishment of the proposed fixed bill pilot program are attached hereto as Applicant's Exhibits 1 (a) - 1 (d).

5. EKPC and the participating Member Systems propose to set up a Fixed Bill Pilot Program which will be at least two years in length, starting in December 2004, involving approximately 1000 consumers, to evaluate the concept of a fixed bill. The details of the program are included in the attached exhibits.

6. Attached as Applicant's Exhibit 2 is the Prepared Testimony of William A. Bosta, EKPC Manager of Pricing, dealing with the purpose of the proposed fixed bill pilot program, as well as the plans for implementation and goals for the program.

7. Attached as Applicant's Exhibit 3 is the Prepared Testimony of James C. Lamb, EKPC Manager of Market Research, detailing the structure, marketing and recruitment, program monitoring, and evaluation process proposed for the fixed bill pilot program.

8. Attached as Applicant's Exhibit 4 is the Prepared Testimony of Michael T. O'Sheasy, Vice-President of Laurits R. Christensen Associates, Inc., dealing with the experience of utilities in other jurisdictions with fixed bill plans, and the methodology to be used in calculation of the fixed bill amounts under the proposed pilot program.

9. EKPC and its participating Member Systems intend to evaluate results of the first eighteen months of the Pilot Program before determining whether to request permanent status from the Commission. Due to the need to implement the proposed fixed bill pilot program by December 1, 2004, in order to obtain data for two full winter heating seasons during the planned duration of the program, EKPC requests an expedited review of this Application, and requests any appropriate deviations from Commission regulations which would facilitate this expedited review.

WHEREFORE, Applicant respectfully requests the Commission to grant EKPC and the participating Member Systems authority to implement the fixed bill pilot program, as proposed herein, commencing on December 1, 2004.

Respectfully submitted,

DALE W. HENLEY



CHARLES A. LILE

ATTORNEYS FOR EAST KENTUCKY  
POWER COOPERATIVE, INC.  
4775 LEXINGTON ROAD  
P. O. BOX 707  
WINCHESTER, KY 40392-0707  
(859) 744-4812

(FxtBillCertApp)

80000 SERIES  
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**FROM THE MINUTE BOOK OF PROCEEDINGS  
OF THE BOARD OF DIRECTORS OF  
EAST KENTUCKY POWER COOPERATIVE, INC.**

At a regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. held at the Headquarters Building, 4775 Lexington Road, located in Winchester, Kentucky, on Tuesday, August 10, 2004, at 11:30 a. m., EDT, the following business was transacted:

After review of the applicable information, a motion was made by Fred Brown, seconded by Jimmy Longmire, and, following further discussion, passed to approve the following:

**Whereas**, East Kentucky Power Cooperative, Inc. ("EKPC") has investigated the concept of offering a Fixed Bill option to interested customers of EKPC's Member Systems;

**Whereas**, The Fixed Bill concept involves establishing for each participating customer a set bill amount that remains unchanged each month for a year, regardless of actual usage;

**Whereas**, Three of our member systems, Inter-County Energy, Nolin RECC, and Salt River Electric, have expressed a strong interest in establishing a Fixed Bill pilot program for their customers;

**Whereas**, EKPC and the participating member systems have developed a proposed pilot program for approximately 1,000 residential customers;

**Whereas**, Under the proposal, retail customers receive a fixed bill and the wholesale bill for that customer to the member system will be fixed thus sharing the risk of the program between the member systems and EKPC;

**Whereas**, EKPC does not anticipate that the risk under the fixed bill pilot will be significant, because there would be only 1,000 participants, and the cost of the pilot is estimated to be about \$265,000;

**Whereas**, EKPC and the participating member systems will evaluate customer satisfaction, the impact on peak demand and load factor, and operational matters following the first eighteen months of the pilot; and

**Whereas**, The Operations, Services and Support Committee has reviewed the facts regarding the proposed pilot program, and recommends approval of it; now, therefore, be it:

**Resolved**, That the EKPC Board of Directors authorizes management to file an Application with the Kentucky Public Service Commission for a Fixed Bill Pilot Program.

The foregoing is a true and exact copy of a resolution passed at a meeting called pursuant to proper notice at which a quorum was present and which now appears in the Minute Book of Proceedings of the Board of Directors of the Cooperative, and said resolution has not been rescinded or modified.

Witness my hand and seal this 10th day of August, 2004.



Sam Penn, Secretary

Corporate Seal



A Touchstone Energy Cooperative 

## RESOLUTION

### FIXED BILL PILOT PROGRAM

**Whereas**, Inter-County Energy has investigated the concept of offering a Fixed Bill option to interested customers of Inter-County Energy's Member Systems;

**Whereas**, The Fixed Bill concept involves establishing for each participating customer a set bill amount that remains unchanged each month for a year, regardless of actual usage;

**Whereas**, Inter-County Energy has expressed a strong interest in establishing a Fixed Bill pilot program for their customers;

**Whereas**, Inter-County Energy and the participating member systems have developed a proposed pilot program for approximately 1,000 residential customers;

**Whereas**, Under the proposal, retail customers receive a fixed bill and the wholesale bill for that customer to the member system will be fixed thus sharing the risk of the program between the member systems and Inter-County Energy;

**Whereas**, Inter-County Energy does not anticipate that the risk under the fixed bill pilot will be significant, because there would be only 1,000 participants, and the cost of the pilot is estimated to be about \$265,000 that will be paid by EKPC;

**Whereas**, Inter-County Energy and the participating member systems will evaluate customer satisfaction, the impact on peak demand and load factor, and operational matters following the first eighteen months of the pilot; and

**Whereas**, The Operations, Services and Support Committee has reviewed the facts regarding the proposed pilot program, and recommends approval of it; now, therefore, be it:

**Resolved**, That the Inter-County Energy Board of Directors authorizes management to file an Application with the Kentucky Public Service Commission for a Fixed Bill Pilot Program.

*Joe H. Spalding*



**Rural Electric Cooperative Corporation**

A Touchstone Energy<sup>™</sup> Cooperative 

**RESOLUTION**

**Whereas,** East Kentucky Power Cooperative, Inc. ("EKPC") has investigated the concept of offering a Fixed Bill option to interested members of EKPC's Member Systems;

**Whereas,** The Fixed Bill concept involves establishing for each participating customer a set bill amount that remains unchanged each month for a year, regardless of actual usage;

**Whereas,** Nolin Rural Electric Cooperative is interested in establishing a Fixed Bill pilot program for its members;

**Whereas,** EKPC and the participating member systems have developed a proposed pilot program for approximately 1,000 residential customers;

**Whereas,** Under the proposal, retail customers receive a fixed bill and the wholesale bill for that customer to the member system will be fixed thus sharing the risk of the program between the member systems and EKPC;

**Whereas,** EKPC does not anticipate that the risk under the fixed bill pilot will be significant, because there would be only 1,000 participants, and the cost of the pilot is estimated to be about \$265,000;

**Whereas,** EKPC and the participating member systems will evaluate customer satisfaction, the impact on peak demand and load factor, and operational matters following the first eighteen months of the pilot;

**Therefore Be It Resolved,** That the Nolin Rural Electric Board of Directors authorizes management to file an Application with the Kentucky Public Service Commission for a Fixed Bill Pilot Program.

I, A. L. Rosenberger, Secretary-Treasurer of Nolin RECC hereby certify that the foregoing is a true and correct copy of an excerpt taken from the minutes of a regular meeting of the Board of Directors held on August 20, 2004.

---

A. L. Rosenberger, Secretary/Treasurer



# SALT RIVER ELECTRIC

111 West Brashear Avenue • Bardstown, Kentucky 40004  
 (502) 348-3931 • (502) 955-9732 • Fax (502) 348-1993

**COPY**

## RESOLUTION FIXED BILL PILOT PROGRAM

**Whereas**, Salt River Electric Cooperative Corporation (“Salt River”) has investigated the concept of offering a Fixed Bill option to interested customers of EKPC’s Member Systems;

**Whereas**, The Fixed Bill concept involves establishing for each participating customer a set bill amount that remains unchanged each month for a year, regardless of actual usage;

**Whereas**, East Kentucky Power Cooperative, Inc. (“EKPC”) and the participating member systems have developed a proposed pilot program for approximately 1,000 residential customers;

**Whereas**, Under the proposal, retail customers receive a fixed bill and the wholesale bill for that customer to the member system will be fixed thus sharing the risk of the program between the member systems and EKPC;

**Whereas**, Salt River and EKPC will evaluate customer satisfaction, the impact on peak demand and load factor, and operational matters following the first eighteen months of the pilot; and

**Resolved**, That the Salt River Board of Directors authorizes management to file an Application with the Kentucky Public Service Commission for a Fixed Bill Pilot Program.

### CERTIFICATE OF SECRETARY

I, J. Sidney Osbourne, Secretary of the Board of Directors of Salt River Electric Coop Corp, do hereby certify that the above is a true and correct excerpt from the minutes of the meeting of the Board of Directors held on the 5<sup>th</sup> day of August, 2004 at which meeting a quorum was present and that the above portion of the minutes has not been modified or rescinded.

**IN WITNESS WHEREOF**, I have set my hand and affixed the seal of Salt River Electric Coop Corp this 5<sup>th</sup> day of August, 2004.

  
 Signature of the Secretary







1 subsequently promoted to Director of Regulatory Management for LG&E Energy in  
2 Louisville, Kentucky following the merger of KU Energy and LG&E Energy in  
3 1998. In May 2001, I was offered an opportunity to join the EKPC system as  
4 Pricing Manager and in June 2001 I assumed my current position.

5 **Q. Please provide a brief description of your duties at EKPC.**

6 A. As Pricing Manager, I am responsible for rate and regulatory matters and issues at  
7 the Company and provide support services for all sixteen cooperatives on these  
8 issues. I report directly to the Vice President of Finance and Planning.

9 **Q. For whom are you testifying in this proceeding?**

10 A. I am testifying on behalf of EKPC and three member systems; Inter-County  
11 Energy, Nolin RECC and Salt River Electric.

12 **Q. What is the purpose of your testimony?**

13 A. The purpose of my testimony is to explain why EKPC and the three participating  
14 member systems are requesting approval of a fixed bill pilot program, discuss the  
15 goals of the program, describe our proposed timeframe for the pilot and provide a  
16 brief description of how the fixed bill will work at wholesale and retail, explain  
17 the provisions for service under the proposed tariff and introduce the witnesses  
18 who are sponsoring testimony in this proceeding.

19 **Q. Please provide a brief overview of the pilot and introduce the witnesses who  
20 are sponsoring testimony in this proceeding.**

21 A. EKPC and its three participating member systems are proposing a pilot program to  
22 introduce the concept of a fixed bill. The fixed bill concept involves establishing  
23 for each customer a set bill amount that remains unchanged each month for a year

1 regardless of actual usage and thus has no subsequent true-up. Three of our  
2 member systems – Inter-County Energy, Nolin RECC and Salt River Electric –  
3 have volunteered to participate in the pilot. These three member systems expect  
4 that a total of about 1,000 residential customers will participate in the pilot.

5 Customers will be invited to participate if they meet certain eligibility criteria and  
6 are selected as a potential candidate through a random sampling process. It is  
7 anticipated that a total of 15,000 customers will be offered an opportunity to  
8 participate. From that randomly generated list of customers, approximately 1,000  
9 residential customers will be expected to participate. Customers involved in the  
10 pilot will be invited to participate for at least two annual contract periods. EKPC  
11 and its member systems will evaluate results of the pilot after the first eighteen  
12 months. Based on the findings, EKPC and its member systems will elect whether  
13 to request approval of the fixed bill on a permanent basis.

14 Mr. James Lamb, Manager of Market Research for EKPC, will offer testimony on  
15 the fixed bill pilot program structure, marketing and recruitment as well as  
16 program monitoring and evaluation.

17 Mr. Michael O’Sheasy, Vice-President of Laurits R. Christensen Associates, Inc.,  
18 will present testimony on several topics. Mr. O’Sheasy will describe how the  
19 fixed bill will be computed, at wholesale and retail, and explain the idea of a “risk  
20 factor” under the program – both for EKPC and the participating member  
21 systems. He will also provide a synopsis of his experience under fixed bill  
22 programs and will conclude his testimony with a description of how the fixed bill  
23 can be combined with other services to meet customer interests.

1 **Q. Please explain the fixed bill concept and how it will be structured.**

2 A. The fixed bill concept allows retail customers to experience no change in their bill  
3 amount over the course of a twelve-month period regardless of usage. Unlike  
4 budget billing, there is no true-up at the end of the period. The participating  
5 member systems will each make fixed bill offers using a uniform method for  
6 generating those offers, as described in detail by Mr. O'Sheasy. EKPC and its  
7 participating member systems will share the risks of fixed billing in that EKPC's  
8 wholesale customer, the member system, will also receive a monthly fixed bill  
9 amount associated with the retail customer. Customers will remain on the  
10 program for the first twelve months of the pilot and will be reminded that their  
11 fixed bill amount for the second year will be based on their consumption in the  
12 first year of the program. Customers will be offered a new fixed bill amount prior  
13 to the beginning of the second year of the pilot. At that time, they may continue  
14 on the program or choose to return to the standard residential rate.

15 **Q. What are the goals of offering fixed billing through the pilot?**

16 Above all, EKPC and its member systems are interested in meeting customer  
17 expectations and enhancing customer satisfaction. The three member systems  
18 involved in the pilot have indicated that their customers want new rate options  
19 and are interested in a product that will ensure certainty in their bills every month.  
20 Our foremost goal in the Cooperative system is to have the highest level of  
21 customer satisfaction possible. Aside from customer satisfaction, other goals  
22 include introducing innovative pricing products to our customers, offering choice

1 to customers through a totally optional rate, and maintaining or improving load  
2 factor.

3 **Q. Please explain the timeframe of the pilot.**

4 A. EKPC and its participating member systems are interested in offering the pilot as  
5 quickly as is practical. We believe it is important to begin the pilot by December  
6 2004 in order to cover the winter peak periods of 2004-2005 and 2005-2006.  
7 Customers will be provided with an initial offer in late 2004 and subsequently  
8 invited to renew their agreement for a second year in late 2005. We will use  
9 information from the first eighteen-month period of the pilot for evaluation  
10 purposes. However, customers will remain in the pilot for the remainder of the  
11 second year and potentially into a third year while the results are evaluated and a  
12 determination is made whether to go forward with the permanent tariff. If EKPC  
13 requests and receives approval of a permanent fixed bill optional rate, the  
14 customers who remain in the pilot in the third year will be transferred to a  
15 permanent tariff, if desired. If results of the initial evaluation are inconclusive,  
16 this approach will allow EKPC and its member systems to use data beyond the  
17 initial eighteen-month period to evaluate further the benefits of the program.

18 **Q. What information will be reported to the Commission on a recurring basis?**

19 A. EKPC and its participating member systems will collaborate to provide the  
20 Commission with the following information on a quarterly basis:

- 21 • Number of retail customers participating
- 22 • Actual and estimated kWh consumption for participating retail customers
- 23 • Standard retail rate bill totals had the participants been on a standard tariff

- 1           • Fixed bill amount totals
- 2           • Number of customers leaving the program
- 3           • Year-to-date totals as applicable

4   **Q. Will EKPC provide information to the Commission on the wholesale bill for**  
5   **each customer?**

6   A. Yes. As indicated in Mr. Lamb’s testimony, EKPC will have to “profile” the  
7   demand at the time of EKPC Coincident Peak for each customer due to the  
8   impracticality and cost of using interval demand meters for residential customers.  
9   EKPC will provide the Commission with the fixed bill amounts at wholesale and,  
10   for comparison purposes, the wholesale bill amounts for fixed bill customers’  
11   actual usage had they been calculated under Schedule E on a quarterly basis.

12   **Q. What type of information will be gathered to determine whether the goals of**  
13   **the pilot have been met?**

14   A. Our most important goal for the program is customer satisfaction. As explained  
15   by Mr. Lamb, EKPC intends to conduct two mail surveys of its fixed bill  
16   participants. Another important factor in evaluating the program relates to the  
17   impact on company peak demand and load factor. Mr. Lamb describes in detail  
18   the process for evaluating how fixed bill participants may affect peak demand and  
19   load factor. Information will be obtained from two winter peak periods and one  
20   summer peak period to draw conclusions about the impact on peak demand and  
21   load factor. Finally, EKPC and its participating member systems will monitor  
22   operational aspects of the pilot on an ongoing basis.

1 **Q. Please describe the Tariff provisions that will support the Fixed Bill Pilot**  
2 **Program.**

3 A. The fixed bill pilot program will have a new, separate wholesale tariff from EKPC  
4 and three (3) retail tariffs for the participating member systems. Exhibit WAB-1  
5 is the retail tariff for Inter-County Energy, Exhibit WAB-2 is the retail tariff for  
6 Nolin RECC and Exhibit WAB-3 is the retail tariff for Salt River Electric.  
7 Exhibit WAB-4 is EKPC's Wholesale Tariff.

8 **Q. Please describe Exhibit WAB-1.**

9 A. This exhibit is Inter-County Energy's Fixed Bill Tariff. It contains the provisions  
10 of retail service under the fixed bill pilot. Exhibits WAB-2 and WAB-3 are  
11 similar tariffs for the other two member systems.

12 **Q. Please review the availability and applicability provisions.**

13 A. The tariff is available to those residential customers residing in Inter-County's  
14 service territory who, under the random sampling process, have been offered a  
15 fixed bill amount under the pilot. It is also available and applicable only to those  
16 customers with at least twelve (12) consecutive months of billing history that  
17 reveals a consistent usage pattern which will support an accurate forecast of future  
18 consumption. In addition, the customer must be in good financial standing with  
19 the Company. Similar information is contained in tariffs for Nolin and Salt River.

20 **Q. What is the term of the contract?**

21 A. All contracts are one year in length. Customers may elect to decline renewal for a  
22 second year at the time the renewal is offered. However, each customer is  
23 obligated to remain on the tariff for one year. Customers who exceed their

1 expected usage by 30% (non-weather related) or more for three consecutive  
2 months during the current contract year, or who abuse the program, will be  
3 subject to removal from the pilot and will pay a termination fee based on the  
4 difference between the amount of energy used and the amount paid under the  
5 fixed bill. If a customer moves, they will not be charged the termination fee.

6 **Q. What is meant by the term “abuse”?**

7 The term means actions such as tampering with the meter, allowing a non-  
8 participant to use electricity under the participant’s fixed bill account through use  
9 of an extension cord, or providing false information to the Company. These types  
10 of actions are not permitted under the standard rules and regulations of the  
11 member systems; they are spelled out here as specific examples of abuse under  
12 the fixed bill tariff.

13 **Q. Please explain how the retail fixed bill amount is determined.**

14 A. The fixed bill amount for each retail customer will be based on the customer’s  
15 previous twelve months’ kWh consumption, adjusted for normal weather. This  
16 annual kWh will then be adjusted for anticipated increases in usage as a result of  
17 natural growth and going on the fixed bill tariff. The total annual kWh will then  
18 be billed under the applicable member system’s current residential rate. Due to  
19 uncertainties of weather, cost, and customer usage, a 2.1% risk factor will be  
20 applied to this bill amount. Mr. O’Sheasy describes in detail the calculation of the  
21 risk factor and the determination of the annual fixed bill amount.

22 **Q. How will the Fuel Adjustment Clause and any other surcharges be**  
23 **incorporated into the annual fixed bill amount?**

1 A. As indicated above, the member systems' residential base rates in effect at the  
2 time of the calculation of the fixed bill will be used. In the case of the FAC and  
3 any surcharges, EKPC will estimate these charges for the first year of the pilot  
4 prior to the fixed bill offers to pilot participants.

5 **Q. Would you please describe Exhibit WAB-4?**

6 A. Yes. This exhibit shows the wholesale tariff from EKPC to its member systems.  
7 For every retail customer in the pilot, this tariff will apply for the wholesale fixed  
8 bill to the member system. Thus, the first requirement for service under the  
9 wholesale tariff is participation in the pilot and service under the fixed bill retail  
10 tariff.

11 EKPC's service for these customers under the current wholesale tariff is not  
12 separately metered, i.e., a retail residential customer's demand and energy are  
13 only a part of the measurement at the substation. The wholesale fixed bill tariff  
14 provides for a fixed bill amount for each participating residential customer, which  
15 is based on profiling the coincident peak demand and the expected kWh energy  
16 consumption at the substation metering point. Using the profiled demand and  
17 historical energy levels as a starting point, the anticipated changes in demand and  
18 energy levels for normal weather and for service under the fixed bill are then  
19 incorporated into the process of the bill calculation under the standard wholesale  
20 tariff. This resulting wholesale fixed bill amount is then adjusted by a risk factor  
21 of 1.6% for the same reasons cited in explaining the calculations of the retail fixed  
22 bill amount. Mr. O'Sheasy outlines the details of the wholesale fixed bill in his  
23 testimony.

1 **Q. Will the Fuel Adjustment Clause and other surcharges for the wholesale bill**  
2 **be handled in the same manner as provided for under the retail fixed bill?**

3 A. Yes.

4 **Q. Can the member system opt out of the fixed bill program during the course**  
5 **of the pilot program?**

6 A. The three participating member systems are committed to the pilot for its  
7 duration. If a residential customer discontinues participation, the wholesale side  
8 of the fixed bill would also cease for this customer and revert to use of the  
9 standard wholesale rate.

10 **Q. Do you have any concluding comments?**

11 A. Yes. EKPC and its member systems understand that this proposal is unique  
12 among rural electric cooperatives and is somewhat unconventional. It is for this  
13 reason that EKPC is proposing a pilot program to provide answers to important  
14 questions before embarking on a permanent proposal. As shown in Mr.  
15 O'Sheasy's testimony, the fixed bill concept has been widely accepted in a  
16 number of regulatory jurisdictions and has become a recognized pricing option for  
17 many customers. It is our goal to offer this product to our members on a  
18 voluntary basis in an effort to maximize customer satisfaction, and we request that  
19 the Commission allow EKPC and its member systems the opportunity to  
20 accomplish this goal through approval of the Pilot.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

23

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY )  
POWER COOPERATIVE, INC., INTER- )  
COUNTY ENERGY COOPERATIVE )  
CORPORATION, NOLIN RURAL ELECTRIC )  
COOPERATIVE CORPORATION, AND SALT ) CASE NO. 2004-\_\_\_\_  
RIVER ELECTRIC COOPERATIVE )  
CORPORATION, FOR AUTHORITY TO )  
IMPLEMENT A FIXED BILL PILOT )  
PROGRAM )

AFFIDAVIT

STATE OF KENTUCKY )  
 )  
COUNTY OF CLARK )

William A. Bosta, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

William A. Bosta

Subscribed and sworn before me on this 19th day of August, 2004 .

Linda Keavill  
Notary Public

My Commission expires:

January 27, 2005

FOR ENTIRE TERRITORY SERVED

Community, Town or City

P.S.C. KY. NO. 7Original        SHEET NO. 55Inter-County Energy  
(Name of Utility)

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**CLASSIFICATION OF SERVICE**

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**RATES FOR RESIDENTIAL FIXED BILL SCHEDULE R-FB****AVAILABILITY**

Available to residential Customers presently served on Schedule 1 who have been selected by random sample to participate in the Fixed Bill Pilot Program on a voluntary basis. Only Customers who have resided at the same residence and have a consistent kilowatt-hour (kWh) usage history for twelve (12) consecutive months which will support an accurate forecast of future consumption, and have a satisfactory payment record, will be eligible. The Fixed Bill Pilot Program will be available for two years from the first service date, with possible renewal thereafter by mutual agreement with East Kentucky Power Cooperative.

**APPLICABILITY**

Applicable to the first 350 Customers eligible for service who apply and meet the guidelines under the Pilot.

**PROGRAM PROVISIONS**

Under this program, the Company will estimate the monthly kWh usage for the 12-month contract period based on the Customer's previous historical metered usage, adjusted to reflect normal weather and expected changes in usage. The Customer's fixed bill will be calculated by using Rate Schedule 1 and the FAC and surcharge factors as applicable to the Customer's total expected usage for each month, applying a Fixed Bill risk factor, then adding these twelve bills of the contract period and levelizing by dividing by twelve, resulting in the monthly charge to be paid by the Customer in lieu of charges for the actual kilowatt-hours calculated on the Customer's applicable rate schedule. The monthly bill amount as calculated will be in effect for a 12-month period.

The Fixed Bill amount will not include usage or charges for additional services including but not limited to outdoor lighting or other separately metered services.

DATE OF ISSUE August 20, 2004  
Month / Date / YearDATE EFFECTIVE December 1, 2004  
Month / Date / YearISSUED BY \_\_\_\_\_  
(Signature of Officer)TITLE PRESIDENT/CEOBY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. \_\_\_\_\_ DATED \_\_\_\_\_

FOR ENTIRE TERRITORY SERVED

Community, Town or City

P.S.C. KY. NO. 7Original          SHEET NO. 56Inter-County Energy  
(Name of Utility)

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**CLASSIFICATION OF SERVICE**

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Provided that the Customer remains in good credit standing and retains a consistent usage pattern that will support an accurate forecast of future consumption, the Company will present the Customer with an offer for a subsequent year of Fixed Bill service. This Fixed Bill offer amount will be determined on the basis of weather-normalized metered usage available at the time of offer generation.

**PAYMENT**

The monthly bill rendered under this program is due and payable in accordance with the applicable provision of Schedule 1 and the terms and conditions of service under this tariff. The charges associated with additional services (such as outdoor lighting) will be determined in accordance with the applicable rate schedules for such service.

**CONTRACT PERIOD**

Service under this program shall commence with the first billing period of the Pilot for a minimum one-year term, renewable annually, at the option of both parties at the end of the first year, subject to the continuation of the Pilot Program. Prior to the anniversary of the contract start date, the Company shall review the Customer's account, and shall prepare a new Fixed Bill offer amount for the next contract year. The new Fixed Bill amount for the next year shall be provided to the Customer at least 30 days prior to the end of the first Program Year. The Customer's participation in the Fixed Bill Pilot Program will automatically continue unless the Customer notifies the Company of termination from the Fixed Bill program. A new Fixed Bill contract and amount will commence in each successive Program Year until the Pilot is terminated.

The Customer may terminate the contract at the end of the first year at no charge. The Customer may terminate the contract at any time during the first year if the Customer moves from their residence. In addition, the Company reserves the right to terminate the Customer's service under this program if the Customer's actual kWh usage in each of three consecutive months exceeds the estimated usage by 30% or more, or for any other violation of this program. Such violations include, but are not limited to, tampering with the meter, sharing service with non-participants or providing false information.

If a Customer requests to be removed from the program during the first year or in subsequent years under the Pilot and continue service on a standard tariff at the same location, or if the Company removes a Customer for

DATE OF ISSUE August 20, 2004  
Month / Date / YearDATE EFFECTIVE December 1, 2004  
Month / Date / YearISSUED BY \_\_\_\_\_  
(Signature of Officer)TITLE PRESIDENT/CEOBY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. \_\_\_\_\_ DATED \_\_\_\_\_

FOR ENTIRE TERRITORY SERVED

Community, Town or City

P.S.C. KY. NO. 7

Original          SHEET NO. 57

Inter-County Energy  
(Name of Utility)

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**CLASSIFICATION OF SERVICE**

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excessive usage or other violation of the program, the Customer will be charged the difference in the bill under actual kWh usage billed under Schedule 1 compared to the fixed bill amount.

DATE OF ISSUE August 20, 2004  
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TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. \_\_\_\_\_ DATED \_\_\_\_\_

FOR ENTIRE TERRITORY SERVED

Community, Town or City

P.S.C. KY. NO. 10

Original SHEET NO. 53

Nolin Rural Electric Cooperative  
(Name of Utility)

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**CLASSIFICATION OF SERVICE**


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**RATES FOR RESIDENTIAL FIXED BILL SCHEDULE R-FB**
**AVAILABILITY**

Available to residential Customers presently served on Schedule 1 who have been selected by random sample to participate in the Fixed Bill Pilot on a voluntary basis. Only Customers who have resided at the same residence and have a consistent kilowatt-hour (kWh) usage history for twelve (12) consecutive months which will support an accurate forecast of future consumption, and have a satisfactory payment record, will be eligible. The Fixed Bill Pilot Program will be available for two years from the first service date, with possible renewal thereafter by mutual agreement with East Kentucky Power Cooperative.

**APPLICABILITY**

Applicable to the first 350 Customers eligible for service who apply and meet the guidelines under the Pilot.

**PROGRAM PROVISIONS**

Under this program, the Company will estimate the monthly kWh usage for the 12-month contract period based on the Customer's previous historic metered usage, adjusted to reflect normal weather and expected changes in usage. The Customer's fixed bill will be calculated using Rate Schedule 1 and the FAC and surcharge factors as applicable to the Customer's total expected usage for each month, applying a Fixed Bill risk factor, then adding these twelve bills of the contract period and levelizing by dividing by twelve, resulting in the monthly charge to be paid by the Customer in lieu of charges for the actual kilowatt-hours calculated on the Company's applicable rate schedule. The monthly bill amount as calculated will be in effect for a 12-month period.

The Fixed Bill amount will not include usage or charges for additional services including but not limited to outdoor lighting or other separately metered services.

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FOR ENTIRE TERRITORY SERVED

Community, Town or City

P.S.C. KY. NO. 10

Original            SHEET NO. 55

Nolin Rural Electric Cooperative  
(Name of Utility)

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**CLASSIFICATION OF SERVICE**

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excessive usage or other violation of the program, the Customer will be charged the difference in the bill under actual kWh usage billed under Schedule 1 compared to the fixed bill amount.

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BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. \_\_\_\_\_ DATED \_\_\_\_\_

FOR ENTIRE TERRITORY SERVED

Community, Town or City

P.S.C. KY. NO. 10Original            SHEET NO. 120Salt River Electric Cooperative Corporation  
(Name of Utility)

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**CLASSIFICATION OF SERVICE**

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**RATES FOR RESIDENTIAL FIXED BILL SCHEDULE R-FB****AVAILABILITY**

Available to residential Customers presently served on Schedule A-5 who have been selected by random sample to participate in the Fixed Bill Pilot Program on a voluntary basis. Only Customers who have resided at the same residence and have a consistent kilowatt-hour (kWh) usage history for twelve (12) consecutive months which will support an accurate forecast of future consumption, and have a satisfactory payment record, will be eligible. The Fixed Bill Pilot Program will be available for two years from the first service date, with possible renewal thereafter by mutual agreement with East Kentucky Power Cooperative.

**APPLICABILITY**

Applicable to the first 350 Customers eligible for service who apply and meet the guidelines under the Pilot.

**PROGRAM PROVISIONS**

Under this program, the Company will estimate the monthly kWh usage for the 12-month contract period based on the Customer's previous historic metered usage, adjusted to reflect normal weather and expected changes in usage. The Customer's fixed bill will be calculated using Rate Schedule A-5 and the FAC and surcharge factors as applicable to the Customer's total expected usage for each month, applying a Fixed Bill risk factor, then adding these twelve bills of the contract period and levelizing by dividing by twelve, resulting in the monthly charge to be paid by the Customer in lieu of charges for the actual kilowatt-hours calculated on the Customer's applicable rate schedule. The monthly bill amount as calculated will be in effect for a 12-month period.

The Fixed Bill amount will not include usage or charges for additional services including but not limited to outdoor lighting or other separately metered services.

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EAST KENTUCKY POWER COOPERATIVE, INC

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**SECTION FB – WHOLESALE RATES FOR FIXED BILL CUSTOMERS**

**AVAILABILITY**

Available to Inter-County Energy, Nolin RECC, and Salt River Electric for use in billing the consumption of residential customers who have been selected by random sample to participate in the Fixed Bill Pilot on a voluntary basis. Only customers who have resided at the same residence and have a consistent kiloWatt-hour (kWh) usage history for twelve (12) consecutive months and have a satisfactory payment record will be eligible.

**APPLICABILITY**

Applicable to the consumption of Inter-County Energy, Nolin RECC, and Salt River Electric residential customers eligible for service who apply and meet the guidelines under the Pilot.

**PROGRAM PROVISIONS**

Under this program, EKPC will estimate the monthly kW and kWh usage for the 12-month contract period based on the Customer's previous historical metered kWh usage and a profile of kW demand, adjusted to reflect normal weather and expected changes in energy and demand. The Customer's total expected bill for each month will be calculated by applying the Section E rate or the applicable rate approved by the Commission and the FAC and surcharge factors as applicable to the Customer's total expected usage for each month, applying a Fixed Bill risk factor, then adding these twelve bills of the contract period and levelizing by dividing by twelve, resulting in a monthly charge to be paid by the Customer in lieu of charges calculated on EKPC's otherwise applicable wholesale rate schedule. The monthly bill amount as calculated will be in effect for a 12-month period.

EKPC shall provide to the Member System the calculation of the Fixed Bill amount for the First Year and the average monthly charge under EKPC's applicable wholesale rate schedule for each participant in the previous 12 months. The Fixed Bill wholesale amount will not include usage or charges for additional services including but not limited to outdoor lighting or other separately metered services. In the second year of the Program and in subsequent years as applicable, the Fixed Bill wholesale amount will be determined on the basis of weather normalized demand and energy levels available at the time of offer generation.

**PAYMENT**

The monthly bill rendered under this program is due and payable in accordance with the payment requirements under the wholesale power agreement between EKPC and the Member Systems.

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CASE NO. \_\_\_\_\_ DATED \_\_\_\_\_

EAST KENTUCKY POWER COOPERATIVE, INC

**TERM OF SERVICE**

Service under this program shall commence with the first billing period of the Pilot for a minimum two-year term, renewable annually thereafter, at the mutual agreement of the Member System and EKPC by the end of the program year. Prior to the anniversary of the initial year under the Pilot, EKPC shall review the retail Customer's load and, assuming that the Customer's data provide a consistent usage pattern that will support an accurate forecast of future consumption, shall prepare a new wholesale Fixed Bill amount for the next year. The new wholesale Fixed Bill amount for the next year and the bill amount under Section E or the applicable rate schedule approved by the Commission shall be provided to the Member System at least 30 days prior the end of the first Program Year.

The Member System may terminate service under the Fixed Bill Program at the end of the first year at no charge provided that all pilot customers eligible for renewal offers have left the program voluntarily. The Member System may terminate service at any time during the first year for those retail Customers who move from their residence. In addition, EKPC will terminate service under the Fixed Bill if the Member System terminates the retail Customer's service under this program.

If a retail Customer requests to be removed from the program during the first year or in subsequent years under the Pilot and continue service on a standard tariff at the same location, or if the Member System removes a retail customer for excessive usage or other violation of the program, then EKPC will charge the Member System the difference in the bill under Section E or the applicable rate approved by the Commission compared to the fixed bill amount.

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1 A. My teammates and I maintain the load research sample, perform load forecasts,  
2 conduct customer satisfaction surveys, analyze the benefits and costs of demand  
3 side management programs, and other types of wholesale and retail market  
4 research.

5 **Q. For whom are you testifying in this proceeding?**

6 A. I am testifying on behalf of EKPC and three member systems; Inter-County  
7 Energy, Nolin RECC and Salt River Electric.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to describe the fixed bill pilot program structure,  
10 marketing and recruitment, program monitoring and evaluation.

11 **Q. Please describe the pilot program's structure, including scale, duration,  
12 timing and target customers.**

13 A. As stated in Mr. Bosta's testimony, EKPC and three of its member systems –  
14 Inter-County Energy, Nolin RECC, and Salt River Electric – have decided to  
15 undertake a fixed bill pilot program for approximately 1,000 residential customers  
16 for a minimum period of two years. EKPC and its participating member systems  
17 would like to commence the program at the beginning of the coming winter  
18 season.

19 **Q. Please describe the reasons why the pilot program will be available to  
20 residential customers only.**

21 A. Selecting residential customers only and limiting the pilot to three member  
22 systems controls the complexity and the cost of the pilot while focusing on the  
23 customer group that dominates current fixed bill programs elsewhere.

1 **Q. What are the reasons underlying the pilot program’s desired timing and**  
2 **duration?**

3 A. Having a pilot program that covers two winters permits us to record and evaluate  
4 response for two of EKPC’s peak seasons. A second season offers the chance to  
5 observe a different weather outcome from the first and permits investigation of  
6 how customers behave in the second year of fixed bill service. We could await  
7 completion of a full two years of service to evaluate and report on the program  
8 but the most important information will already be available at the end of eighteen  
9 months. Additionally, the recollections of customers of the value and use of fixed  
10 billing in the winter seasons will be freshest immediately after the winter.

11 **Q. Why was 1,000 selected as the appropriate number of participants?**

12 A. EKPC and its participating member systems prefer a pilot program of this size  
13 because it permits proper evaluation of both the operational aspects of a fixed bill  
14 program as well as the impact on the retail customer and the EKPC system.

15 It is important for EKPC and its participating member systems to fully understand  
16 the dynamics of operating this program on a large scale. A pilot of approximately  
17 1,000 customers is large enough to provide information in the operational areas of  
18 billing, communicating, marketing, and customer support.

19 A participant group of 1,000 customers spread across three member systems  
20 should also provide a diverse range of customers in terms of size, appliance  
21 ownership and demographics. This will yield large enough numbers to avoid the  
22 possible distortion of quantitative response results by a few outliers.

23 Additionally, customer diversity should help to reveal the range of reasons for

1 adopting fixed billing. This combination of information is key to evaluating the  
2 market potential and the impact of a full-scale fixed billing program.

3 **Q. How will pilot program customers be selected?**

4 A. Customers will be selected from the three participating member systems. All of  
5 their residential accounts will be screened using the following two criteria:

- 6 1. Pilot customers must have at least twelve consecutive months of consistent  
7 billing history.
- 8 2. Pilot customers must have a good payment record.

9 From the customers who screen through, we will randomly select about 15,000  
10 and invite them to participate in the pilot. EKPC and its members believe that this  
11 level of marketing will result in the desired 1,000 participants. The implied  
12 response rate of 7% is a typical assumption, based on our inquiries at utilities that  
13 have offered fixed billing pilot programs previously.

14 **Q. How will customers be notified about the pilot?**

15 A. EKPC's three participating member systems will issue a solicitation letter with  
16 follow-up postcards to recruit customers for the pilot.

17 **Q. How can customers respond to the offer?**

18 A. Retail customers who want to participate will contact the member system that  
19 serves them. We envision that replies will take the form of mailed acceptances  
20 and telephone inquiries, followed by telephone-based and mailed acceptances.  
21 Each participating member system will handle their customer inquiries –  
22 customers will contact the member system.

23 **Q. What will EKPC's role be in marketing and recruiting?**

1 A. EKPC and the three participating member systems are working closely to ensure  
2 that the various elements of the pilot – product design and pricing, marketing and  
3 recruiting, ongoing program maintenance and program evaluation – form a  
4 cohesive whole. Consistent with this team approach, EKPC will work with its  
5 participating member systems to conduct training on customer contact and  
6 recruitment aspects of the fixed bill product. However, actual marketing and  
7 recruiting will be entirely controlled by the participating member systems, in the  
8 tradition of retail service at rural electric cooperatives. EKPC itself will have no  
9 direct contact with the retail customer.

10 **Q. How will billing of retail customers work?**

11 A. Billing will occur in the usual fashion: customers will receive a monthly bill with  
12 a dollar amount and the record of their actual (kWh) consumption during the  
13 billing period. Mr. O’Sheasy’s testimony documents the process by which the  
14 fixed bill dollar amount is determined.

15 **Q. How will billing of the member system by EKPC work?**

16 A. EKPC plans to bill the participating member system for fixed bill consumption  
17 according to its proposed wholesale fixed bill tariff, Schedule FB. Schedule FB  
18 will bill on the basis of *expected*, rather than *actual*, overall consumption (kWh)  
19 and coincident peak demand (CPkW) of fixed bill customers.

20 Fixed Bill pilot participants are served at wholesale off of a distribution substation  
21 where EKPC measures coincident peak demand and actual kWh for all of the  
22 customers in the aggregate, including any pilot participants, served at the

1           substation. During the pilot program, the billing to member systems associated  
2           with fixed bill pilot participants will work as follows:

- 3           1. EKPC will bill its member system for all demand and energy consumed at  
4           the substation, including fixed bill participants, under current Wholesale  
5           Rate Schedule E. While the actual coincident peak kW and the kWh for  
6           each fixed bill participant is not separately shown, it is included within the  
7           total substation meter readings, and the bill amount associated with these  
8           participants is included in the total wholesale bill to the member system.
- 9           2. EKPC will compute a wholesale bill using Wholesale Rate Schedule E for  
10          the fixed bill participants based on actual kWh usage, adjusted for losses,  
11          and based on demand profiling. This amount is deducted from the total  
12          wholesale bill from EKPC to the member system.
- 13          3. EKPC will then add in the computed fixed bill amount *based upon*  
14          *expected usage* for each of the fixed bill participants served from that  
15          substation.

16   **Q.    How will the fixed bill pilot program be evaluated to determine its viability**  
17   **and desirability?**

18   A.    EKPC and its participating member systems will collaborate to evaluate customer  
19   response to and satisfaction with fixed billing. We will also evaluate the  
20   operational aspects and costs of the program in order to make a full-scale program  
21   as cost-effective as possible.

22   **Q.    How is customer response to fixed billing defined?**

1 A. Customer response has several dimensions. First, we will want to know what  
2 types of customers select fixed billing and with what propensity. Second, we will  
3 want to know how overall consumption by fixed bill customers changes, both in  
4 the first year and in subsequent years in response to a renewal offer. Third, it will  
5 be important to learn whether CPkW changes differ from overall consumption  
6 changes. Fourth, we would like to know how those who depart fixed billing  
7 during or after the first program year behave.

8 **Q. How will overall customer response to fixed billing be evaluated?**

9 A. We will use customer billing data to evaluate questions of overall response. We  
10 will decompose the overall actual change relative to expected usage into weather-  
11 related and non-weather factors. These data will also permit a comparison of  
12 fixed bill customer size with average residential size.

13 **Q. How will participant response at the coincident peak be evaluated?**

14 A. EKPC will install a statistically valid number of load research meters at the  
15 premises of a subset of the 1,000 fixed bill participants. We will compare demand  
16 and energy information from those customers to that of a control group of  
17 residential customers who have comparable characteristics and are billed under  
18 the standard residential tariff and already have EKPC's existing residential load  
19 research meters installed.

20 **Q. What customer survey information is anticipated?**

21 A. EKPC and its participating member systems will measure customer satisfaction  
22 with the pilot, as well as customer satisfaction with their electric utility. The  
23 surveys will be in two stages; the first survey will follow the period of renewal

1 and will consist of a detailed questionnaire for those participants who did not  
2 continue in the pilot. Customers who renew will receive a short survey, which  
3 will be followed by a more detailed survey at the conclusion of the initial  
4 eighteen-month period.

5 **Q. Does this conclude your testimony?**

6 A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY )
POWER COOPERATIVE, INC., INTER- )
COUNTY ENERGY COOPERATIVE )
CORPORATION, NOLIN RURAL ELECTRIC )
COOPERATIVE CORPORATION, AND SALT ) CASE NO. 2004-\_\_\_\_
RIVER ELECTRIC COOPERATIVE )
CORPORATION, FOR AUTHORITY TO )
IMPLEMENT A FIXED BILL PILOT )
PROGRAM )

AFFIDAVIT

STATE OF KENTUCKY )
COUNTY OF CLARK )

James C. Lamb, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

James C. Lamb (handwritten signature)

Subscribed and sworn before me on this 19th day of August, 2004.

Linda Newell (handwritten signature)
Notary Public

My Commission expires:

January 27, 2005 (handwritten date)





1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is fourfold. One, I will explain the background regarding  
3 how the fixed bill (FB) concept has evolved and share my direct experience with  
4 adoption and implementation of the product in several regulatory jurisdictions; two, I  
5 will describe how the initial fixed bill offers will be computed, at wholesale and retail,  
6 including the determination of weather normalized usage, “expected” usage under the  
7 program and the “risk factor”; three, I will discuss how the fixed bill offers will be  
8 determined for subsequent years of the program; and four, I will describe how the fixed  
9 bill might be combined with a number of other alternatives to enhance customer  
10 satisfaction.

11 **Q. What is your experience with Fixed Bill?**

12 A. I designed the fixed bill product for Georgia Power Company while there. At the time,  
13 it was the first FB product of its kind in the electric utility industry. The idea surfaced  
14 during some customer focus groups in Georgia, after which we then undertook a  
15 considerable research effort on the concept and possible customer response. This  
16 research effort also included extensive assistance from my current employer,  
17 Christensen Associates, and resulted in two subsequent fixed bill pilot programs which  
18 proved to be very successful. A permanent fixed bill program was then introduced.  
19 After becoming a consultant with Christensen Associates, I discussed this fixed bill  
20 product with Duke Power Company and Progress Energy, where it was enthusiastically  
21 accepted and subsequently became a permanent pricing product. The product being  
22 introduced in our proposal is basically the same design as that of all three of these larger  
23 utilities.

1 **Q. Are there any other fixed bill programs currently in the electric industry?**

2 A. There are some pilot and limited programs, as revealed in Exhibit MTO-2, in addition to  
3 the three permanent programs previously mentioned. We are currently working with a  
4 considerable number of utilities, ranging from municipalities to rural electric  
5 cooperatives to investor-owned utilities to offer the product in other service territories.  
6 In fixed bill's brief existence of four years, it has rapidly grown to a population of highly  
7 satisfied customers numbering over 300,000 and is growing daily.

8 **Q. How will the fixed bill be computed?**

9 A. As Mr. Bosta stated in his testimony, the fixed bill amount is a constant total bill each  
10 month for the contract year regardless of actual usage. It must, therefore, recognize that  
11 customers migrating to fixed bill will likely increase consumption. Additionally, the  
12 utility is taking on risk to guarantee a fixed bill for an entire year.  
13 FB must consider the individual customer's historical usage pattern including weather  
14 sensitivity in order to forecast each specific customer's expected usage under weather  
15 normal circumstances. So, the steps in computing a fixed bill offer are: 1) weather  
16 normalize a specific customer's monthly kWh usage history, 2) add expected changes in  
17 kWh usage to the historical period levels, including natural growth in usage by  
18 customers regardless of FB and the growth in usage induced by FB, 3) compute the  
19 standard bill revenue derived by taking the kWh from the prior step through the standard  
20 bill rate with applicable riders, 4) add in the appropriate risk factor necessary to cover  
21 the added risk for the utility to offer this product over the standard rate, 5) add any  
22 necessary customer charges or surcharges as applicable, and 6) sum over the 12 months  
23 forecasted for the contract year and divide by 12. The result is the fixed bill offer  
24 stylized for each individual customer. This computation can be seen in formulary  
25 display in Exhibit MTO-3. (Note that customer charges are excluded from this exhibit  
26 for simplicity.) The goal and objective of the methodology is to ensure that participants

1 pay the cost of the product such that non-participants are not harmed, but, in fact, are  
2 helped.

3 **Q. How are non-participants helped with FB?**

4 A. As mentioned previously, FB induces growth. Based on my experience with this  
5 product, the growth is predominantly during the shoulder and off-peak periods. The  
6 *expected* growth is added to the customer's normalized history to produce the FB  
7 customer's overall monthly expected usage, which will next be run through the standard  
8 rate. When this inherent growth is implicitly priced out through the standard rate, it  
9 helps to cover fixed cost to everyone's benefit, including non-participants.

10 **Q. So, is the "expected" kWh consumption for each individual FB customer based  
11 upon their own weather-normalized history and then adjusted for expected  
12 changes in usage?**

13 A. Yes. The expected changes in usage are consistent across all FB customers and include  
14 natural usage changes and changes induced by FB.

15 **Q. What is the basis for the changes induced by FB?**

16 A. FB customers will alter their consumption primarily by setting their heating and cooling  
17 thermostats at desired levels of comfort. In doing so, the kWh changes will occur  
18 primarily during the shoulder and off-peak time periods. This effect is documented in a  
19 report of Gulf Power Company from their fixed bill pilot and can be seen in my Exhibit  
20 MTO-4.

21 **Q. How is the customer's kWh consumption normalized for weather?**

22 A. Each individual customer's actual historical usage is regressed against the cooling degree  
23 days (CDD's) and heating degree days (HDD's) that were experienced during each  
24 respective historical billing month. The CDD's and HDD's are obtained from a nearby  
25 weather station for the specific customer. This regression is performed using a standard  
26 statistical regression methodology. The result is an equation which estimates the  
27 customer's individual weather sensitivity. The CDD's and HDD's for a weather normal

1 year for the territory are obtained using historical years, and are then inserted into each  
2 customer's weather sensitivity equation to forecast what the customer's kWh  
3 consumption would be during a weather normal year.

4 **Q. How will the "expected" kWh consumption be developed for a second contract**  
5 **year on FB for those customers who wish to renew?**

6 A. The FB customer's first year's actual consumption while on the FB product will be  
7 weather normalized. So to the extent that the specific customer's actual usage changes  
8 were less than or greater than the expected change inherent in the first year offers, this  
9 will be included in the renewal offer--in other words the customer's actual, weather  
10 normalized, usage during the first year on FB will be the basis of their individual  
11 renewal offer, coupled with the overall expected change in usage for second-year FB  
12 customers. This expected change for second-year customers is usually less than the  
13 change expected for first-year FB customers. Likewise, third-year offers will be  
14 developed based upon second-year actual, weather normalized, usage under FB and  
15 adjusted for third-year expected changes, which, based on my experience with other  
16 utilities, should be quite small.

17 **Q. Can you elaborate on why a risk factor is necessary and how it is computed?**

18 A. The fixed bill product is a constant amount for each of 12 months regardless of actual  
19 usage or changes in cost. The utility is, therefore, absorbing more risk with FB than it  
20 absorbs with the standard product, which possesses a per kWh charge based upon actual  
21 usage and can change with cost changes such as a base rate or FAC change. These risks  
22 are specifically the: 1) weather risk affecting kWh usage, 2) price response risk that the  
23 induced changes to FB will be greater than anticipated, 3) risk that natural growth in  
24 customer kWh usage will be greater than expected, and 4) risk that underlying cost will  
25 change without a commensurate change in the FB contract amount unlike the change  
26 possible with the standard rate. These individual risks must be combined together in a  
27 manner that incorporates the fact that some of these risk components are correlated with

1 each other. The combined result reveals the extent to which the utility's net revenues are  
2 at risk. In other words, if an extreme event were to happen, the utility would not collect  
3 as much net revenue as it would have collected with the standard rate. The inherent cost  
4 to the utility of covering this potential undercollection in any one year becomes the risk  
5 factor.

6 **Q. What is the risk factor for the wholesale bill and for the retail bill?**

7 A. EKPC will apply a 1.6% risk factor for the wholesale bill to the member system. The  
8 risk factor for the retail bill is 2.1%.

9 **Q. How were these risk factors derived?**

10 A. Christensen Associates' approach to computing the risk premium for fixed billing is  
11 based upon developing an estimate of the risk exposure of the program and then using  
12 the provider's cost of money to value that exposure. The methodology is called Value at  
13 Risk and is employed in other industries such as the insurance industry. We begin by  
14 estimating the parameters of the distributions of each of the sources of risk of fixed  
15 billing. Those sources of risk are: 1) weather risk, 2) usage risk due to natural growth  
16 and fixed bill induced growth, and 3) underlying cost risk as evidenced by possible  
17 changes in the base rate and/or fuel clause. We then compute the parameters of a joint  
18 distribution of these risk sources. Once this joint distribution is available, we compute  
19 the value at risk for the program (essentially the difference in net revenues between the  
20 expected outcome and a "worst case" outcome). We then use the provider's cost of  
21 money to establish the cost of covering this risk exposure.

22 In this process, we identify the separate net revenue streams of EKPC and the member,  
23 and then we apply this methodology to those streams. The net revenue stream for EKPC  
24 is based on the wholesale pricing arrangement as modified for fixed billing and is  
25 demonstrated in my Exhibit MTO-5. Both EKPC and the member still bear risk related  
26 to variation in customer load factor and overall customer usage in response to fixed  
27 billing.

1 **Q. Is this risk factor methodology essentially the same as that used by Georgia Power,**  
2 **Duke Power, and Progress Energy?**

3 A. Yes it is. Our proposal is, of course, somewhat different in that a risk factor has been  
4 developed for both EKPC and the participating member systems reflecting the risks at  
5 the wholesale and retail levels.

6 **Q. How did FB come about in the three states you mentioned?**

7 A. As I indicated earlier, the demand for FB first surfaced during some focus groups in  
8 Georgia. After further market research and quantitative analysis, a pilot of 500  
9 customers was approved by the Georgia Public Service Commission. This pilot began  
10 in June 2000 and contained approximately 400 residential customers and around 100  
11 small commercial customers. At the end of the pilot, the customers were surveyed and  
12 found to be very satisfied—beyond normal levels—with the product and desirous of  
13 continuing. Word about the innovative, customer-friendly product had spread. Major  
14 media sources picked up on this energy product breakthrough with articles in the *Atlanta*  
15 *Journal Constitution* and radio newsreels, even at a national level with the Paul Harvey  
16 Show. Requests to be billed on the product poured into Georgia Power Company  
17 (GPC). GPC asked for and was granted permission to expand the pilot beginning June  
18 2001 to 10,000 residential and small commercial customers. For the second pilot, over  
19 90% of the first-year FB participants volunteered for a second year, an amazing renewal  
20 rate with the majority of those not renewing having moved out of GPC's service territory  
21 and being, therefore, no longer eligible. These renewals would provide valuable  
22 evidence on second-year FB usage changes. Over 9,000 new customers were added to  
23 the research on FB. The second pilot proved to be highly successful. The Georgia  
24 Public Service Commission unanimously approved GPC's request for permanent tariff  
25 status for FB for service beginning in June 2002. Immediately tens of thousands of  
26 customers signed up for FB such that presently nearly 200,000 are on the rate, or over 1  
27 out of 9 residential customers served by GPC.

1 **Q. What happened with Duke Power Company and Progress Energy?**

2 A. We took the concept to Duke, who quickly understood its potential. Duke was  
3 convinced that we had obtained sufficient research on this product in Georgia, where  
4 customer characteristics were sufficiently similar to their customers that Duke could rely  
5 upon our expertise, and thereby requested FB tariff approval on a permanent basis  
6 without a pilot. The North Carolina and South Carolina utility commissions approved  
7 these filings for Duke's residential customers beginning in the fall of 2002. Once again,  
8 tens of thousands of customers immediately signed up. Next we assisted Progress  
9 Energy with their product design. They too felt that sufficient research on FB had been  
10 conducted that they could safely avoid a pilot. Permanent tariff approval was requested  
11 and granted by the North Carolina and South Carolina utility commissions in March of  
12 this year. Customer campaigns are underway with thousands of Progress Energy  
13 residential customers already having signed up for FB.

14 **Q. In Exhibit MTO-4, you shared a report from Gulf Power Company's fixed bill  
15 pilot. Is it going forward with a request for permanency?**

16 A. Yes, a request to make the rate permanent, supported by Christensen Associates, has  
17 been filed and will be adjudicated by the Florida Public Service Commission soon.  
18 Gulf's pilot was also an unquestionable success. As a part of the pilot design, change in  
19 usage by FB customers was carefully researched. The report affirmed similar results  
20 from GPC's usage research that the usage increase is predominantly off the peak with  
21 very small, if any, peak impact. Gulf's pilot revealed that their monthly peaks, whether  
22 summer or winter, were basically not increased by customers on fixed bill any more than  
23 they would have been had the customers remained on the standard rate. It also  
24 confirmed that satisfaction of participating customers achieves extremely high levels of  
25 over 95%.

26 **Q. Is Gulf Power Company a summer peaking utility?**

1 A. Gulf can peak in either season. Their peaks are influenced by air conditioning as well as  
2 heating requirements, which is similar to the EKPC system. In fact, their system peak  
3 last year was set in the winter month of January.

4 **Q. Why do you believe that FB has been so successful?**

5 A. Bottom-line, it is clearly a product that customers want. This was revealed by early  
6 market research and validated by the scores of customers who have signed up for it.  
7 And, these customers consider the product to be a premium service for which they will  
8 pay the risk factor necessary to cover the fixed bill product's additional cost. This  
9 creates a "win-win" product solution. Customers get what they want, the utility covers  
10 its cost, and customer satisfaction soars.

11 **Q. Do these utilities now offering FB also have budget bill programs?**

12 A. Yes they do. FB is not a replacement for budget billing. It is an enhancement. Budget  
13 billing is a good solution for those who want stable energy bills and are willing to risk  
14 weather impacts and true-ups. (I might add that history shows us that budget bill  
15 customers, who understand the true-up with budget billing, will increase consumption  
16 upon joining budget billing, as new FB customers do.) FB, however, is the perfect  
17 solution for those customers who want completely stable energy bills and do not want to  
18 risk bill variations caused by such forces as the weather and end-of-period true-ups.  
19 Many current budget bill customers will gladly transfer to FB while others will remain  
20 with budget billing. The lesson to be realized here is that "one size doesn't fit all".  
21 Consumers have different tastes and risk preferences, and if a utility wants to satisfy  
22 their customers' needs, they should offer a family of pricing products—FB being a prime  
23 component.

24 **Q. Do you believe publicly owned utilities should offer FB?**

25 A. Yes, for many reasons, with the major reason being to increase the value of service that  
26 they provide to their customers and thereby offering residential customers more product  
27 choices.

1 **Q. Please discuss some of these other reasons that a publicly owned utility should offer**  
2 **FB.**

3 A. FB will cover its cost and provide additional margin on an expected year basis. This  
4 additional margin should lower the revenue requirements for all customers.  
5 Furthermore, FB will open up a family of additional high-value products to energy  
6 customers in Kentucky.

7 **Q. Please elaborate on these additional products.**

8 A. The requested FB product is a 12-month offering. A natural extension, requiring a  
9 higher risk factor, is a 24-month product and even a 36-month product.  
10 Even though FB has a tendency to increase growth off of the peak, it could be combined  
11 with an efficiency program, such as the Touchtone Energy Home program, in which  
12 only houses exceeding specified energy standards would qualify. Risk factors and usage  
13 changes could logically be less than the primary FB product, thereby encouraging  
14 customers to purchase more high-efficiency homes. The same approach could be used  
15 for a "green" product, whereby the customer could obtain two attractive attributes: 1)  
16 environmentally benign generation, and 2) a fixed bill.  
17 Another additional product arises from the new flexibility regarding the timing of  
18 payment that FB offers. Since the bill amount is known with certainty for the next 12  
19 months, the utility could permit the FB customer to pay for the entire 12 months up-front  
20 and receive a discount. The discount would be below the utility's cost of money, but  
21 above the customer's value of money, thereby creating another "win-win" solution.  
22 Eventually after experience with FB is achieved here in Kentucky, developer packages  
23 may be offered in which the first 12 months of energy are included in the sales price of  
24 the house. Likewise, apartment FB packages could be offered. In addition, the product  
25 is very appealing to and could be offered to small and mid-size businesses where  
26 budgeting and meeting energy cost goals are important.

1 Because FB offers must be based upon the individual customer's weather normalized  
2 usage, any efficiency enhancements and conservation steps undertaken by the customer  
3 are clearly revealed once the impact of weather is removed. Efficiency programs can  
4 now easily be offered without the measurement distortions created by the vagaries of the  
5 weather.

6 **Q. Does it seem logical to offer an FB product while at the same time encouraging**  
7 **efficiency and conservation?**

8 A. Yes. First, there is nothing wrong with offering a product which results in growth as  
9 long as the participating customers pay for the cost of providing the product. FB does  
10 this. In fact, budget bill programs do this, as evidenced by research on residential  
11 customers before and after joining budget billing. Surely no one would advocate  
12 eliminating budget bill programs simply because they result in growth.

13 As previously indicated, FB achieves most of its growth off the utility's peak. This was  
14 first evident with Georgia Power's initial program and later in Gulf's pilot research, as  
15 shown in Exhibit MTO-4. Growth in the off-peak period would enable the EKPC  
16 system to achieve a higher load factor and, therefore, be more efficient.

17 FB initial offers, as well as renewal offers, are based upon prior history that has been  
18 weather normalized. Therefore, a residential customer can invest in efficiency  
19 improvements and be assured of cash payback in the following years. This cannot be  
20 said for efficiency improvements added under standard pricing products because a  
21 severe weather period may swamp the effects of the efficiency improvement such that  
22 standard rate bills are actually higher the next year—not true with FB.

23 The renewal FB offer will be based upon the prior year's usage under FB. This will be  
24 clearly articulated to FB customers during that first year, and this has a tempering effect  
25 on FB consumption. FB customers on the average will exercise usage moderation  
26 knowing that it will impact next year's offer. In fact, utilities with FB that have provided

1 conservation tips to their FB customers have found a very high rate of adoption of these  
2 tips by their FB customers.

3 **Q. Since the system in Kentucky is unbundled, with EKPC being the wholesale**  
4 **generating and transmission company, and the member systems being the retail**  
5 **distributor and supplier, which one of the two groups will bear the risk of FB?**

6 A. This proposal is an exciting, innovative approach in which both the wholesale entity  
7 (EKPC) and the retail provider (member systems) will share in the risk and rewards  
8 based upon the risks that each party takes on. Each party will have its respective bill  
9 amount developed in the formulary method previously explained. For EKPC, the  
10 wholesale tariff, Schedule E will apply, while the residential tariff will be used for the  
11 member system –and with the addition of the corresponding risk factor. After signing  
12 up, the FB customer will pay his FB amount to the member system, which will then  
13 transfer the wholesale piece to EKPC. As explained by Mr. Lamb, the FB customer's  
14 peak load contribution to EKPC's monthly peak will be removed from the member  
15 system's monthly peak load billing units using a load profile for the FB customer. The  
16 FB customer's actual kWh, adjusted for losses, during the specific billing month will be  
17 removed from the member system's monthly kWh billing units. This methodology  
18 enables both parties to share in the risk of actual usage being different from expected  
19 usage for the FB customer. So, in essence any one year can result in an undercollection  
20 of revenue, but the expected year-in, year-out results should be revenue sufficient to  
21 cover all costs of FB.

22 **Q. Can you demonstrate an example of a typical fixed bill?**

23 A. Yes. Exhibit MTO-5, Page 1 of 2, shows an example of the fixed bill computation for  
24 the wholesale (EKPC) portion of the fixed bill which will be billed to the member  
25 system. It begins by (1) taking the customer's actual historical billing units, (2) weather  
26 normalizing them, (3) adding in the usage change that's predicted, (4) billing this

1 through the standard wholesale tariff Schedule E2, and then (5) adding the risk premium  
2 to produce a fixed bill total to be billed to the member system.

3 The total retail fixed bill offer to the customer is demonstrated on page 2 of 2. It begins  
4 by (1) taking the customer's actual historical billing units, (2) weather normalizing them,  
5 (3) adding in the usage change that's predicted, (4) billing this through the respective  
6 member system's standard tariff, and then (5) adding the risk premium to produce a  
7 fixed bill total for the retail customer. Note that these examples are based on an average  
8 monthly bill for a typical fixed bill customer using 2002 history and weather data.

9 **Q. Are you currently working with any other publicly owned utilities to develop an FB  
10 program?**

11 A. Yes, we are currently under contract with another large publicly owned utility to develop  
12 FB, and are in discussion/proposals with a couple more.

13 **Q. Can you summarize for this commission why you believe that they should approve  
14 this fixed bill pilot request?**

15 A. This remarkable product is designed to improve the customer satisfaction of participants  
16 and cover its cost with billings to them, thereby protecting non-participants. This is  
17 precisely what all efficient pricing products should do. I am convinced that in the future,  
18 all utilities will have to offer this product either by being proactive or reactive to the  
19 demands of their customers. Now is an ideal time for EKPC and its members to  
20 proactively offer this product via a pilot in Kentucky.

21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY )
POWER COOPERATIVE, INC., INTER- )
COUNTY ENERGY COOPERATIVE )
CORPORATION, NOLIN RURAL ELECTRIC )
COOPERATIVE CORPORATION, AND SALT ) CASE NO. 2004-\_\_\_\_
RIVER ELECTRIC COOPERATIVE )
CORPORATION, FOR AUTHORITY TO )
IMPLEMENT A FIXED BILL PILOT )
PROGRAM )

AFFIDAVIT

STATE OF GEORGIA )
)
COUNTY OF COBB )

Michael T. O'Sheary being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Michael T. O'Sheary
8/12/04

Subscribed and sworn before me on this 12 day of Aug. 2004

Bruce G. Oliver
Notary Public

My Commission expires:

Notary Public, Cobb County, Georgia
My Commission Expires July 7, 2008

**EXHIBIT MTO-1**

**Michael (Mike) T. O'Sheasy**  
**Vice President, Retail Pricing and Solutions**  
**Laurits R. Christensen Associates, Inc.**

Mike O'Sheasy is a Vice President of Christensen Associates of Madison, Wisconsin. He retired as Manager of Product Design in 2001 after over 20 years with Georgia Power Company and Southern Company Services, an operating company in the Southern Company system. His responsibilities included pricing strategy development and future rate planning; rate research, design, and evaluation; and the preparation and filing of retail rates. He also served as an expert witness on both pricing and costing.

Mike was the architect of the Real-Time Pricing program at Georgia Power which is the largest program in the United States. Other leading edge innovations championed by Mike include: Flat Bill, Price Protection Products, Multiple Load Management, Interruptible Exchange Service, Multiple Account Management, and Daily Energy Credits. He has published numerous articles on pricing in national magazines including the *TAPPI Journal*, *Public Utilities Fortnightly*, *Electric Perspectives*, *EPRI Journal*, *Energy Pulse*, *Energy Customer Management*, and the *Electricity Journal*. He has a national reputation for pricing innovation and has been interviewed in *USA Today*, the front page of the *Wall Street Journal*, *Newsweek*, National Public Radio, and CNN FN.

Mike earned an MBA in 1973 from Georgia State University and a Bachelor of Industrial Engineering from the Georgia Institute of Technology in 1970. He also has his CPM.

**Professional Papers:**

“Building a Better Pricing System,” *Public Utilities Fortnightly*, May 2004.

“Demand Response: Not Just Rhetoric, It Can Truly Be the Silver Bullet,” *The Electricity Journal*, Vol. 16, Issue 10, pp. 48-60, December 2003.

“How to Perform Efficient TOU Design,” *Energy Central's EnergyPulse.net*, July 23, 2003, *CyberTech, Inc.*

“Who's Afraid of the Fixed-Bill?,” *Energy Central's EnergyPulse.net*, April 2003, *CyberTech, Inc.*

"Is Real-Time Pricing a Panacea? If So, Why Isn't It More Widespread?," *The Electricity Journal*, December, 2002.

"Flat Prices for Peak Hedging," *Public Utilities Fortnightly*, November 1, 2002.

"RTP Customer Demand Response – Empirical Evidence on How Much Can You Expect," in *Electricity Pricing in the Transition*, A. Faruqi and K. Eakin, eds., Kluwer Academic Publishers, 2002 (with Michael O'Sheasy).

"Flat Bills, Peak Satisfaction," *Energy Customer Management*, January/February, 2002.

"The New Pricing Organization," EPRI International Pricing Conference, co-authored with Robert Camfield, 2000.

"Roll the Dice, Set a Price," *Public Utilities Fortnightly*, May 15, 1999.

"5-cent Sundays...The Future of Electricity Prices?" *Electric Perspectives*, January/February 1999.

"Real-Time Pricing – Supplanted by Price-Risk Derivatives," *Public Utilities Fortnightly*, March 1, 1997.

"Customers Can Buy Low, Sell High," *The Electricity Journal*, February 1998.

"Real-Time Pricing for Purchased Electricity: An Innovative Pricing Option for Electricity as Used by the Pulp and Paper Industry," *TAPPI Journal*, April 1996.

"Reaping the Benefits of RTP: Georgia Power's RTP Evaluation Case Study," Volumes 1 and 2, Electric Power Research Institute (EPRI), December 1995.

**EXHIBIT MTO-2**

**Who is Offering Fixed Billing  
in the Electricity Utility Industry?**

- Georgia Power           \* major application
- Duke Power             \* major application
- Progress Energy       \* major application
- Savannah Electric     \* pilot program
- IPALCO                 \* limited application
- Alabama Power         \* pilot program
- Gulf Power             \* pilot program (completed)
- Oklahoma G&E         \* pilot program

**EXHIBIT MTO-3**

**General Formula of Fixed Bill Offer**

A fixed bill offer is developed by applying the standard tariff pricing to the expected consumption level of the customer and then adding an appropriate risk factor. This expected consumption level is weather normalized historical consumption data from the customer's billing records, adjusted for a quantity factor that reflects the aggregate expected percentage quantity change from the historical time period to the contract period. This approach is represented in the algebra below.

- $Q_m$  = Weather normalized estimate based upon monthly history for each individual customer  
 $QF$  = Usage Change including natural growth percentage  
 $P_m$  = Standard rate otherwise applicable for each month, including any and all clauses such as fuel (exclude taxes, local franchise fees, and customer charge)  
 $RP$  = Risk factor percentage

$$\frac{\sum_{m=January}^{December} \{ [Q_m (1 + QF)] \times P_m \} \times (1 + RP)}{}$$

**EXHIBIT MTO-4**

**ATTACHMENT B  
Results of Gulf Power Company's *FlatBill*<sup>®</sup> Pilot Program**

**Summary**

As part of Gulf Power's most recent rate case, the Company sought and was granted authorization to conduct a *FlatBill*<sup>®</sup> pilot program.

The *FlatBill*<sup>®</sup> pilot introduced a pricing program which offered residential (Rate Schedule RS) and small commercial customers (Rate Schedule GS) the opportunity to purchase retail electric service at a fixed or flat monthly bill amount, customized for each customer, for 12 months. It was the Company's belief that this new rate would be a valuable energy product/price optional package that would be well received by customers. The purpose of the pilot program was to gather information in order to decide whether or not a broad-scale application of such a program at Gulf Power would be appropriate. The major focus of this data collection involved evaluating consumptive behavior changes of the participating customers, the resulting impact on peak demand and the determination of the customers' satisfaction with the program.

With the pilot now complete, the Company has been able to gather energy consumption data needed to analyze the customers' behavior changes as a result of being billed on the *FlatBill*<sup>®</sup> rate and the impact those changes had on peak demand. In addition, a customer survey was conducted which produced valuable feedback.

Following is an overview of the *FlatBill*<sup>®</sup> pilot program results.

**Gulf Power *FlatBill*<sup>®</sup> Pilot Program**

The *FlatBill*<sup>®</sup> pilot program at Gulf Power began in the fall of 2002, when approximately 5,000 *FlatBill*<sup>®</sup> offers were mailed to a group of residential and small commercial customers. Accounts fitting the criteria for participation in the program were identified. The criteria used for identification were accounts with at least 12 months usage history at the premise and good credit standing with the Company. The 5,000 offers were randomly selected from that pool of accounts.

From the 5,000 offers mailed, 3,000 to residential customers and 2,000 to small commercial customers, 386 acceptances were received. Of those, 256 were from residential customers and 130 were from small commercial customers.

Each customer that enrolled in the program was sent a letter to confirm their participation and monthly *FlatBill*<sup>®</sup> bill amount. Enclosed with the confirmation letter was a pamphlet of conservation/energy efficiency tips and recommendations for both summer and winter energy savings. Customers who enrolled in the program received their first of twelve bills on the *FlatBill*<sup>®</sup> rate in January 2003 and their final bill on the *FlatBill*<sup>®</sup> rate in December 2003.

The *FlatBill*<sup>®</sup> monthly bill amounts were derived from each individual customer's historical kWh usage, weather normalized, and adjusted for the expected increase resulting from participation in the program. This resulted in an estimated annual kWh. These kWh were then multiplied by the appropriate base rate and cost recovery clause adders for the contract period. The resulting sum was added to the annualized customer charge, and divided by 12 to arrive at the monthly *FlatBill*<sup>®</sup> amount.

There were three areas of interest for which the Company sought to collect information in this pilot program: (1) Impact on kWh consumption; (2) Impact on Peak Demand; and, (3) Customer Reaction. Each of these is discussed below.

#### **Impact on kWh Consumption**

The customers who participated in the *FlatBill*<sup>®</sup> pilot program, on average, did increase their kWh consumption. In order to assess the amount by which the energy consumption increased, a usage comparison was done between the actual and predicted kWh consumption of the *FlatBill*<sup>®</sup> customers.

For each month, January through December 2003, actual kWh consumption was measured for each *FlatBill*<sup>®</sup> customer. In addition, for each of these months, a calculation was made to predict, based on actual weather, what each of the customers would have used if they had not been in the *FlatBill*<sup>®</sup> program. Averages of both the actual and predicted totals by month were used to show the difference in usage that can be attributed to the fact that these customers were on the *FlatBill*<sup>®</sup> rate.

There was an increase in consumption accounted for by the customers being on the *FlatBill*<sup>®</sup> rate.

### **Impact on Company Peak Demand**

In order to determine the impact that the *FlatBill*<sup>®</sup> customers would have on the Company's peak demand, *FlatBill*<sup>®</sup> sample and control groups were established. At the beginning of the pilot, approximately 140 load research meters were deployed at participating *FlatBill*<sup>®</sup> customers' premises to make up the sample group. This sample was selected randomly and represents over one third of the total pilot population. The control group was selected, based on energy consumption matches, from the existing load research meters already deployed in the field and approved by the Cost of Service Load Research Rule filed by the Company with the Florida Public Service Commission.

For each Gulf monthly peak hour in the months of January to December 2003, the difference between the mean kW of the control group and the mean kW of the *FlatBill*<sup>®</sup> sample group was calculated. In addition, the confidence intervals (CI) around this difference were calculated at the 90 percent level, which means that there is a 90 percent certainty that the difference between the two groups will fall between the upper and lower CI bounds.

A statistical test was performed on all months to see if the CI included the value of zero. According to this test, if the CI included the value of zero, there was statistically no significant difference between the demands for the test and control groups for that month. If this is the case, the *FlatBill*<sup>®</sup> group did not affect the Gulf system peak for that month.

For all months except November, the CI included the value of zero. In November, the Upper Bound of the CI was close to zero but did not include that value.

Since there is no statistically significant difference between the demands at the monthly system peak hours for the *FlatBill*<sup>®</sup> sample and control groups, except for one month of the twelve, the conclusion is that, during the Pilot, the usage patterns shown by the *FlatBill*<sup>®</sup> customers had basically no more effect on the Gulf Power monthly peak demand than if they had not been in the *FlatBill*<sup>®</sup> program.

In other words, although there was an increase in kWh consumption attributed to the *FlatBill*<sup>®</sup> customers, this additional usage did not have a noticeable impact on peak demand.

### **Customer Reaction**

During the month of October 2003, Gulf Power conducted a mail survey of all of its *FlatBill*<sup>®</sup> pilot program participants. Three hundred and Fifty-three surveys were mailed, with 214 responses received (61%). This is an extraordinarily high response rate to a mail survey.

The vast majority of the responses received were very positive. For instance, when asked for their overall satisfaction with the program, on a scale of 1 – 10, with 10 representing “Very Satisfied”, 95% of the respondents scored the program an 8 or above. When asked if, given the chance and knowing their *FlatBill*<sup>®</sup> offer for the upcoming year would be based on consumption from the current year, they would renew their contract, 76% of the respondents answered that they would “Very Likely” renew.

Some of the comments received back included: “Senior citizens, fixed income (social security), we know exactly what we have to do to maintain budget”; “Important thing is that you are on a fixed income, it’s hard to pay large bills...thank you for giving us a chance to pay our bill each month with the *FlatBill*<sup>®</sup> program”; “Allows us to stay within our budget, best thing to come along in a while, especially when you have a limited budget”; “Thank you so much for helping me on my small business.”

In addition, it is important to mention, that the *FlatBill*<sup>®</sup> pilot program participants did not abandon conservation efforts as a result of being on *FlatBill*<sup>®</sup>. As a matter of fact, 82% of the *FlatBill*<sup>®</sup> customers who responded to our survey implemented energy tips included with their confirmation letter.

### **Conclusion**

The *FlatBill*<sup>®</sup> Pilot Program was completed in December 2003. The Company has successfully gathered the data that was identified to reach the goals established for the pilot.

EXHIBIT MTO-5

Wholesale Fixed Bill Computation  
 Average Monthly Bill for a Typical Fixed Bill Customer  
 2002 History and Weather

Typical Customer	Actual History*	Weather Normalized History	Expected Usage Increase	Total Expected Usage for Fixed Bill	Billing		Risk Premium		Total Offer to Member System
					Charge (\$/kWh or kW)	\$	%	\$	
On-Peak kWh	714	683	68	751	\$0.030034	\$22.56			
Off-Peak kWh	540	516	52	568	\$0.022468	\$12.76			
kWh Total	1254	1199	120	1319		\$35.32			
KW	3.547	3.392	0.339	3.731	\$5.22	\$19.48			
Total						\$54.80	1.6%	\$ .88	\$55.68

\* Note, kWh's have not been adjusted for losses for ease of comparison.

